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Limiting Wartime Incomes

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A Radio Discussion by

- NEIL JACOBY
- MAYNARD KRUEGER
- ARTHUR MARGET

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THE UNIVERSITY OF CHICAGO

ROUND TABLE

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NOTE

The supplementary information contained in the footnotes to the following text, developed by staff research, is not to be considered as representing the opinions of the ROUND TABLE *speakers. Following the transcript of the broadcast are questions which readers may wish to use for analysis and discussion. It is hoped that teachers and discussion leaders may find this additional service of the* ROUND TABLE *transcript helpful in their study of the subject discussed in the broadcast.*

LIMITING WARTIME INCOMES

A UNIVERSITY OF CHICAGO ROUND TABLE BROADCAST*

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ARTHUR MARGET, Department of Economics, University of Minnesota

* A radio discussion broadcast from the University of Chicago, over stations of the National Broadcasting Company, Sunday, May 31, 1942, at 1:30 P.M., Central War Time.

The ROUND TABLE, oldest educational program continuously on the air, is broadcast entirely without a script, although participants meet in advance, prepare a topical outline, and exchange data and views. Subjects are chosen because of their social, political, or economic significance. The program has no "ax to grind." In the selection of speakers, the effort is to provide a balanced discussion by participants who have special competence and knowledge. The opinion of each speaker is his own and in no way involves the responsibility of either the University of Chicago or the National Broadcasting Company.

LIMITING WARTIME INCOMES

●

Early in the defense program President Roosevelt assured the nation that the rich must not become richer or the poor poorer. A month ago he named a top limit for incomes after taxation—$25,000. Was this a suggestion or merely a rhetorical allusion to the need for equality of sacrifice in time of war?

Who gets more than $25,000 a year, anyway? Would taking all that money away from the rich balance the budget? Regardless of the answers to these specific questions, are all segments of the American populace sharing equally in the hardship of war? What proposals to guarantee equality of sacrifice are worth considering? What lies ahead on the economic front?

These are questions answered by the University of Chicago ROUND TABLE *speakers who faced the microphone for a discussion of "Limiting Wartime Incomes."*

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MR. JACOBY: I'd like to have the issues stated frankly. Are you in favor of limiting personal incomes during the war, after taxes, to $25,000 a year?

MR. KRUEGER: I am, except that I think the proposal's a little bit too weak.

MR. MARGET: I don't like the proposal, but I must add that I would not oppose it if someone could convince me that it's politically necessary in order to enable us to slap on the kinds of taxes that we really need.

MR. JACOBY: I think Marget's position is a little bit weak. In my view, there can be no political case to show that it's necessary, at the present juncture, to limit these incomes in order to get everybody's full cooperation in the war effort; and I must oppose it for reasons I'd like to state later.

But what are the pros and cons of the President's proposal?[1] One of the first questions that I think listeners to the ROUND TABLE would be interested in is how important these people with incomes of over $25,000 are. How many of them are there in relation to all income-receivers? How much of the national income is represented by incomes of this class? What are the facts?

MR. KRUEGER: The answer to that, Jacoby, is very clear. The number of people in the United States who get more than $25,000 a year constitute only about one-sixth of 1 per cent of the total number of income-receivers.

MR. JACOBY: That's about six out of every thousand.

MR. KRUEGER: Or about seventy thousand, perhaps, in the entire country. Now, the proportion of the national income that they get, however, is considerably greater. They get about 6 per cent of the total national income. But 6 per cent is not enough of the national income, if it were *all* taken by taxation, to make a substantial dent in the budget.

MR. MARGET: Of that small amount of the national income

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[1] *In a message to Congress on April 27, President Roosevelt said: "At the same time, while the number of individual Americans affected is small, discrepancies between low personal incomes and very high personal incomes should be lessened; and I therefore believe that in time of this grave national danger, when all excess income should go to win the war, no American citizen ought to have a net income, after he has paid his taxes, of more than $25,000 a year. It is indefensible that those who enjoy large incomes from state and local securities should be immune from taxation while we are at war. Interest on such securities should be subject at least to surtaxes."*

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which is earned by these people, a still smaller amount is actually spent on the ordinary necessities which affect the cost of living that the President was talking about. That means that, if we're interested in these figures for their importance in stopping inflation, in stopping a rise in the cost of living, the amount is still smaller than you stated.[2] (*See illustration, page 9.*)

MR. JACOBY: It seems to me that the President's proposal to limit incomes was probably the least important thing he said in his whole anti-inflation speech, with most of which I heartily agree.

The fact is that, when you're seeking to limit the cost of living, the people with incomes over $25,000 aren't even 6 per cent important in the problem. They are far less important than that, because most of their incomes are saved anyhow.

MR. KRUEGER: They are less than 6 per cent important all right, from the straight quantitative standpoint, but those people are important, remember, for other reasons than merely the size of the incomes that they get. Those incomes confer political importance and prestige, and, in the distribution of power, I should say that they are far more important than they are merely from the standpoint of the proportion of the national income that they get.

MR. MARGET: But remember that the President was talking about the cost of living. I think we ought to stick with that for a while. Now, one of the things we ought to be interested in is the question everybody asks: "Who is getting rich out of the war?" And, if you were to take this proposal by itself, it might be implied that the people who were getting rich were the people with incomes over $25,000.

MR. JACOBY: And that's a totally fallacious view.

MR. MARGET: Of course it is. After all, if you ask the question, "How much of this additional spending power (which is what

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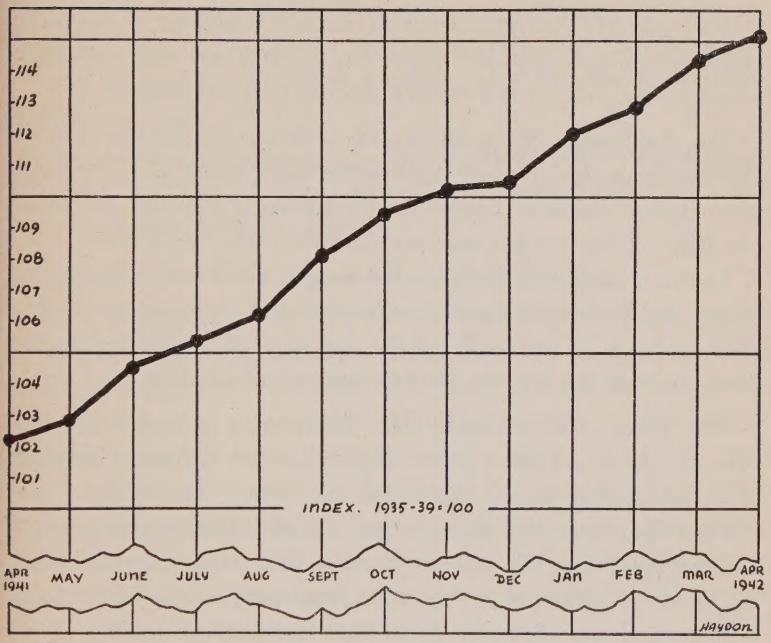
[2] *See the University of Chicago* ROUND TABLE *"How To Meet the Menace of Inflation" (200) broadcast January 11, 1942.*

COST OF LIVING: UP 13 PER CENT IN A YEAR



SOURCE: UNITED STATES DEPARTMENT OF LABOR

would have to be siphoned off) is going to the so-called middle-income group—people who earn $2,500 or less?" the answer is that most of it is going to those—to the organized laborers and farmers.

MR. KRUEGER: Of course! Eighty per cent of the consumers in this country get less than $2,500 a year. But the increases in the incomes of the people who earn around $1,500 a year haven't been very great. And you don't really think, do you, that there's any danger of those people getting rich?

MR. MARGET: That isn't the question! The question is whether the total amount going to that group is large in the aggregate; be-

cause, if it is large in the aggregate, and if we've got to cut down total spending, those are the people, unfortunately, whom we'll have to hit.

MR. JACOBY: And the fact is, if you try to cut down the total spending of people with incomes of $25,000 and over, you're talking about a mere drop in the whole bucket of national income.

MR. KRUEGER: We're all agreed on that. On the question of who's getting rich, I don't think we're really going to know until later. I don't think we'll know until after the war is over just what the effect of the war has been on the distribution of income.

I have a suspicion, though, that people who are already in the higher brackets have ways of increasing their incomes that aren't showing up quite so clearly at the present time as the increase in farm prices or the increase in the wages of union labor.

MR. JACOBY: We do know this: There are a few corporate officers who no doubt have gotten higher incomes if their companies are producing on war contracts, but they're not the important element of the people with high incomes. Most of the people with high incomes are coupon clippers and stockholders. And we all know that corporate dividends are going down, that rents and royalties have been pegged and are going down, and that interest income is not increasing.

MR. KRUEGER: Let me put a question to you. Do you think that if incomes were limited to $25,000 as a maximum (after taxes) it would interfere with the productive effort of the country at the present time?

MR. JACOBY: No, not materially. It seems to me that, in time of war, other incentives to work and produce replace the dollar incentive. We've got hundreds of dollar-a-year men, who formerly had big salaries with corporations, who are not working for dollars.

MR. MARGET: I agree with you, but you ought to state, I think, what your real objection to the proposal is. You said you were opposed.

MR. JACOBY: I do oppose it; and I oppose it for this reason: If you suddenly limit personal income to $25,000, you will be creating disturbances in people's personal situations. You will be hitting people who have commitments to pay taxes, to pay insurance premiums, to meet debts, and to contribute to charities. Suddenly you will be preventing them from doing that without getting any compensating gains.

MR. MARGET: That's it. The latter is the really important thing. You wouldn't mind the disturbance if you felt that there was a real economic gain coming out of it.

MR. JACOBY: Not at all; but I can't see the gains.

MR. KRUEGER: I would agree that there would be some mental distraction for the people whose incomes would be cut by the imposition of that kind of a limitation. But I think on the whole we're inclined to handle those people with silk gloves, pay a great deal of attention to their mental distractions as a result of taxation, and pay very little attention to the mental distractions of the great masses of the people who get inconvenienced either by conscription or by the sales taxes. We seem to be agreed that quantitatively this problem is not very important. But if it isn't quantitatively important, its importance must be on other grounds.

There aren't very many people who get more than $25,000. Two of you think that nobody's really getting rich out of the war—or that very few people are. I think we'll find out more about that later. It isn't going to interfere very much with the productive effort during the war.

MR. JACOBY: I suggest that we pass to another question.

When the President said that wartime incomes, in his view, should be limited to $25,000, I think he was merely giving a popular expression to the idea that there should be equality of sacrifice during the wartime.

MR. MARGET: I think you're right, and I think we ought to discuss that idea. But I'd like to preface our discussion with this

somewhat cynical remark: Everybody's in favor of equality of sacrifice until it comes to the details. I think the attempt to get "equality of sacrifice" during a war effort is a pure mirage; that if you try to carry it out, you'll get into perfectly absurd situations. For example, there is no sacrifice comparable to that which young men make when they die on the battlefield. Would you propose actually equalizing sacrifice by killing a few more people? Some people lose their businesses. Do you propose to equalize sacrifice by taking away other people's business? Unless we recognize that we cannot get perfect equality of sacrifice, I don't think we'll get to first base.

I think the real point is this: We've got a job to do. Of two proposals for handling that particular job, which involves less inequality of sacrifice?

MR. KRUEGER: It seems to me to be nonsense to draw the analogy: "If some people get killed, do you therefore equalize sacrifice by killing off everybody else?" The answer to that is not only "No," but it's "*Of course not!*"

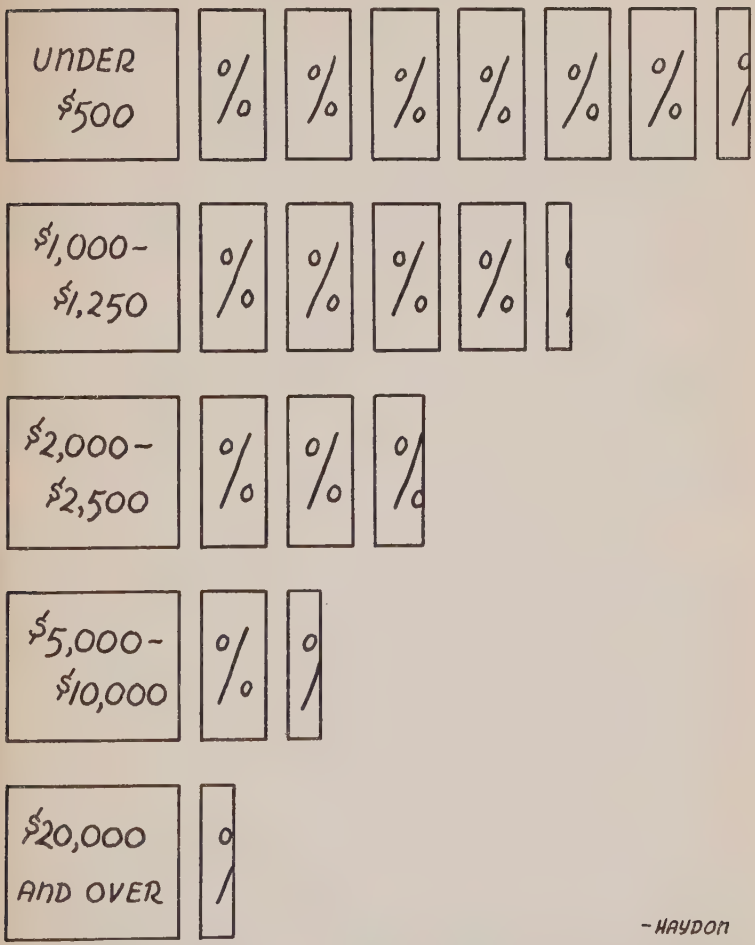
Now, if you want really to consider the question of equality of sacrifice, you may not know what it is in any absolute terms, but everybody knows sufficiently well what equality of sacrifice is, I think, to know what is a move in that direction and what isn't. It seems to me the moral aspect of equality of sacrifice is the most important one. There is such a great distinction in this country between what we do and what we say we do that I think millions of people are reacting in disgust against the divergence between what we do and what we say we do.

MR. JACOBY: I don't think you state the question correctly. When people talk about equality of sacrifice, I think what they really mean is the rough idea that everybody should be equal in the sense that we are all making an important sacrifice in the war effort. And they're not trying to measure that sacrifice in terms of blood or in terms of dollars.

MR. MARGET: Just to get the issue stated correctly, would you

PER CENT OF FAMILY INCOME SPENT ON FOOD

(Selected Income Levels)



SOURCE: NATIONAL RESOURCES COMMITTEE: "CONSUMER EXPENDITURES IN THE UNITED STATES, 1935-36"

state what you believe to be the moral issue, as you call it, in this matter of equality of sacrifice?

MR. KRUEGER: I think it's this: We talk about equality of opportunity; we talk about equality of rights; and we talk about equality of access to the basic facilities for making life worth living; and we don't do enough about it. During a period like this, when war aims are inclined to be stated by the morale people in such terms as the defense of freedom, the defense of our equalitarian way of life, in which one man is as good as another, and so on, people are particularly conscious of those things and particularly aware of the divergence between the way people are actually treated and the way we say we treat people.

MR. JACOBY: Let's become a little more specific and concrete. We are very much concerned, in a practical way, with equality of sacrifice, because it's you and I who are going to make the sacrifices; and these sacrifices are going to come out of our pocketbooks; they are going to come out of our labor and our time in service for our country.

MR. MARGET: You spoke of the sacrifice involved in paying taxes. Let's go back for a moment to my earlier proposition. I think that the true alternative to an adequate tax program is the inflationary process, which will be more inequitable, I think, than almost any tax program that could be devised.

MR. JACOBY: By "inflationary process" you mean a substantial rise in the cost of living.

MR. MARGET: I mean just that.

MR. JACOBY: Then the prime test of a tax program at this stage is whether it prevents such a rise in the cost of living. If it does not prevent it, you are saying (and I agree with you) that the pensioner —the man who has an insurance policy or is getting unemployment benefits—and the aged will, through a rise in the cost of living, undergo greater sacrifices than is their just due. Our tax system should prevent that.

Mr. Krueger: Let's take a look at some of these different taxes to see how they stack up in terms of equality of sacrifice.

I'm of the opinion that the No. 1 tax in that regard, the best tax in the world from the standpoint of equality of sacrifice, is the graduated income tax.

Mr. Jacoby: I'll agree.

Mr. Marget: I agree, entirely. But I would just like to point out that what that means at the present time—when we want to avoid the inequality of sacrifice associated with inflation—is that income taxes will have to be levied on the broad masses of the population, which means they'll have to be very heavy—much heavier than they have been—on those who earn from $1,100 to $2,200 a year.

Mr. Krueger: That's the middle third of the income groups.

Mr. Marget: Exactly.

Mr. Krueger: Everybody below $1,100 is in the bottom third; and everybody above $2,200, or $45 a week, is in the top third.

Mr. Marget: Yes.

Mr. Krueger: Now, if you want to extend income taxation into the middle third, which, on the whole, I think you've got to do if you're going to have a military program of this size, it becomes awfully important to take a look at some other aspects of the problem. The fact that municipal and state bonds are exempt from income taxation is a very substantial loophole in the income-tax program, isn't it?

Mr. Jacoby: It certainly is, and it's high time, I think, that we rectified the deplorable situation in which we find ourselves. We continue, as my colleague Professor Simons says, "to dip deeply into high incomes with a sieve" by permitting this haven for high incomes to continue.

Mr. Krueger: They are exempt in the first place only because

municipalities and states are able to borrow at a little bit lower price if the bonds are exempt. But since the income-tax principle has come into operation that kind of an exemption is completely out of whack with the very principle of progressive taxation.

MR. JACOBY: In that connection I think we ought to go back for a minute to consider why an income tax is the best alternative for getting the least inequality of sacrifice that's possible. I suggest that the reason is that it is possible under an income tax to eliminate from taxation some minimum standard of existence.

MR. KRUEGER: By granting the lower exemptions?

MR. JACOBY: By granting an exemption.

MR. KRUEGER: And also by graduating the rates?

MR. JACOBY: Right! Now, the practical political problem we're going to confront in the United States, I think, will be a general sales tax versus a broad-based income tax. And in considering that problem I think we ought to give some thought to the kind of a sales tax that would be necessary to raise the amount of money that the country will need.

MR. MARGET: I think one of the reasons why the sales tax is popular with certain members of Congress is that they think that people won't mind a sales tax and that they think of a sales tax of perhaps 2 or 3 per cent.

MR. JACOBY: When the real fact of the matter is that a sales tax that will raise the fifteen billion dollars of additional revenue necessary to prevent a rise in the cost of living will be a tax rate of 15 or 20 per cent or more.

MR. KRUEGER: It may even go as high as 30 per cent.[3] Assuming

[3] *A general retail sales tax of between 15 and 30 per cent is indicated as being necessary to eliminate increases in the cost of living, given the various estimates of the sales volume of goods available and given the various estimates of dollar income coming into consumers' hands in 1942.*

that the Treasury raises a billion dollars a month by borrowing, and assuming that the income tax stays as high as it is, my guess is that it would take a 30 per cent sales tax to stop the inflationary process from continuing.

But don't forget when you're talking about the dangers of a sales tax that you've already got a lot of sales taxes in this country—federal sales taxes, too. Specifically, the excise taxes; and a lot of poor people are already paying that kind of indirect taxation.

MR. JACOBY: Now, the House Ways and Means Committee has recently taken action on the income tax. Let's take a look at what they propose to see how it ought to be criticized. In my view the House Ways and Means Committee income-tax program should be criticized first because it doesn't propose raising enough money with the income tax.

MR. MARGET: I'd agree, and I'd say that with respect to the Treasury's proposal, also. Actually, the congressional proposal bids to get less in the aggregate than the Treasury does; and the Treasury proposal was entirely inadequate from the standpoint of our main criterion—the avoidance of inflation with all the inequity it involves.

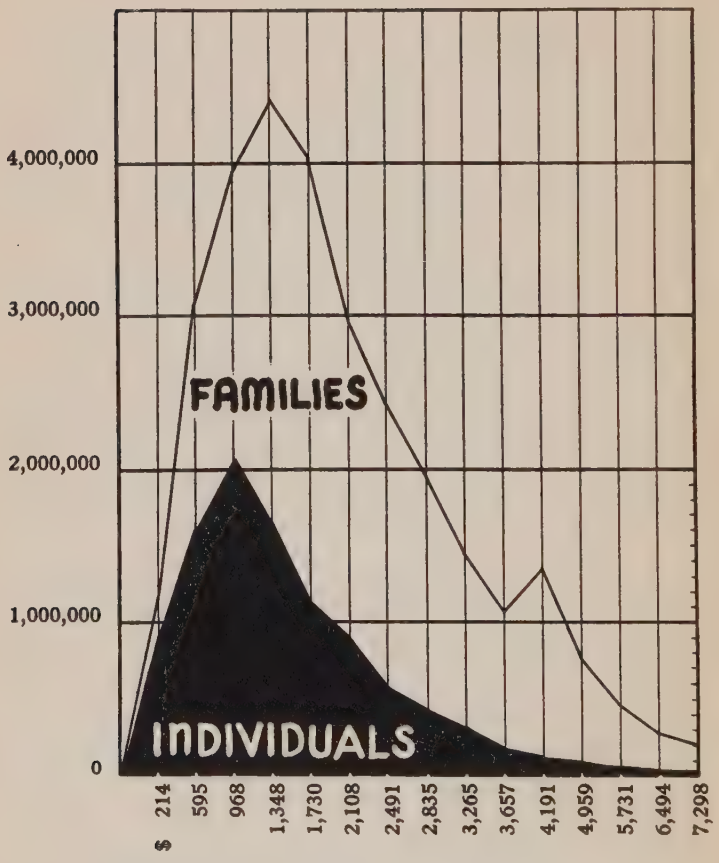
MR. KRUEGER: All right! First, the Treasury didn't propose a program that was high enough, and the House Ways and Means Committee has cut it still further. Second, the Treasury proposed higher rates on the upper income-tax brackets, and the House Ways and Means Committee proceeded to reduce them. The Treasury proposals would have taken $2,500 in taxes from a $10,000-a-year man. The House Ways and Means Committee will take only $2,000.

MR. JACOBY: That's true.

MR. KRUEGER: From a $5,000-a-year man the Treasury would have taken about $890, and the House Ways and Means Committee will take only $700. That, I think, is a move in the wrong direction.[4]

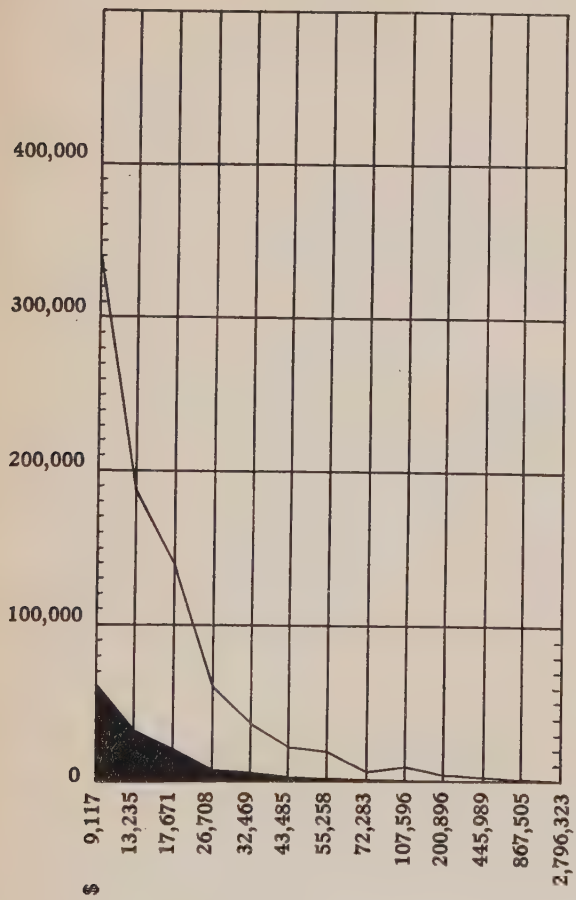
[4] *The House Ways and Means Committee has changed the Treasury's tax program as follows: decreased the corporation-tax schedule to*

NUMBER OF INDIVIDUALS AN
IN THE



** Data adjusted for population and income changes by the Iowa State*

ILIES IN EACH INCOME LEVEL
STATES*



of War Finance, March, 1942.

MR. JACOBY: I agree with you, but I think we ought to hand the Ways and Means Committee an orchid for correcting a flaw in the original Treasury proposal. The Treasury said that there should be exemptions of $750 for a single person and $1,500 for a married couple; whereas the Ways and Means Committee wisely recommends a cut in the exemption to $500 for a single person and to $1,200 for a married couple. That seems drastic, but that's the kind of a cut that is necessary at the present time to get the money to prevent the rise in the cost of living.

MR. KRUEGER: I disagree with you. I think they're getting those exemptions down too low in comparison with the rates in the upper brackets. I think they ought to stay out of the lower third of the income groups.

MR. MARGET: I'm afraid I agree with Jacoby on that particular point. The alternative to getting the amount of money we need is something which will hurt those lower-income groups more. Now, if I may summarize the points of agreement, rather than of disagreement, on the question of what kind of a tax program we want, I think we are agreed that the backbone of any decent tax program ought to be income taxation. But, in order to raise the amount which is necessary to stop the inflationary process, we've got to go down into income groups which have not been touched by federal

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cut off revenues estimated at $690,000,000; declined to tax about $20,000,000,000 worth of tax-exempt state and municipal securities which would have raised about $275,000,000 in revenue; turned down the Treasury's recommendations to tax $208,000,000 from especially privileged corporations, principally oil and mining companies; reduced individual exemptions to bring into the income-taxpaying class all single persons earning more than $10 a week and all married persons earning more than $24 a week; and voted to reject the Treasury's proposals for increased taxes on estates and gifts by which the Treasury had planned to raise $330,000,000. Thus far the House Ways and Means Committee tax program will raise $2,250,000,000 less than the Treasury Department proposed.

taxation. All of us would prefer to avoid sales taxes, because their size would result in a great deal of inequity, although I personally believe that a sales tax, bad as it is, would be better than inflation.

In any case, we agree above all that both the Treasury and Congress have not gone far enough in terms of the total amount that must be raised in order to finance this program.

Mr. Jacoby: We've discussed the question of whether wartime income should be limited to $25,000, and I think we all agreed that a temporary limitation during the period of the war itself would not destroy the private-enterprise system. But there is a broader question—whether a permanent limitation of incomes to some level around $25,000 would spell the death knell of free enterprise or of what we popularly call "the capitalistic system."

Mr. Krueger: I think that the death knell of the capitalistic system has already been pretty well sounded by the war economy. But I don't suppose you'll agree. I don't think that limiting incomes to $25,000 will make it very difficult to get the kind of management that industry must have. If incomes range from zero to $25,000, I think you can get people who will do the managerial job in industry on a salary basis.

Mr. Marget: Management in the sense in which you seem to be using the term does not seem to me to be the important criterion, the important characteristic, of the system of private enterprise. What seems to me to be important is what we might call innovation —the bringing-in of new things, daring, and taking risks. And I'd like to point out, as far as this proposal is concerned, that if this were made a permanent measure we should have to ask these questions: "What are we going to put in its place?" "What has happened in the past?" Specifically, this: We found that what has been called "venture capital," risk-taking capital, has come from the people with high incomes, because they could afford to take a chance. If you take away this leeway, if you limit their incomes, the tendency, I fear, would be definitely that they would sit on

what they have and take no chances; and if you have a non-chance-taking economy, it seems to me you've taken the life out of the system of private enterprise.

MR. JACOBY: You're speaking right down my groove. The prime mover in the private-enterprise system is the fellow who takes the chance that his dollars are going to produce a profit. And, just as you need high incomes to take the chances of large success from taking large risks, you need it also to counter the possibility of getting big losses. You need big incomes in order to make up big losses.

Private enterprise means that there must be the prospect of becoming a millionaire just as there must be the prospect open to the venturer of becoming a bankrupt. We need a big crop of millionaires and a big crop of bankrupts in any kind of a vital, dynamic, growing, private-enterprise system.

MR. KRUEGER: That seems to me to be equivalent to saying that you can't run a capitalistic system without some very wealthy people.

MR. MARGET: I would interject: "without the opportunity open to people to become wealthy if they're willing to take the chances involved in the process."

MR. KRUEGER: That means that you cannot operate a capitalistic system without great inequalities in the distribution of income.

MR. JACOBY: I think you overemphasize that.

MR. KRUEGER: Well, that was what I gathered from what you said.

MR. JACOBY: The banking system is supposed to provide a man who has a good idea with the chance to accumulate funds to try it out on the market. That man—the innovator, the adventurer—need not necessarily be a rich man.

MR. KRUEGER: Here's the dilemma you get into with that. I think it's probably true that you can't run a free-enterprise system

without considerable inequality in the distribution of income; but I think it's also true that you can't run a *democratic* system with great inequalities in the distribution of income.

MR. JACOBY: I beg to disagree!

MR. MARGET: I don't accept that as a dilemma. Implicit in that, in the first place, is the suggestion that the people with the high incomes will take advantage of their position.

MR. KRUEGER: They always have.

MR. MARGET: I don't grant that! I think that the democratic process provides checks.

Second, if you're suggesting that people who have less income than others will resent the possession of high incomes, I think you misread the American character. I think that what they want is higher income for themselves. I don't believe that they resent high incomes on the part of other people unless they become convinced that those other people got theirs by stealing it from those who have low incomes.

MR. KRUEGER: I think a great many people have that impression, and I think a great many of them are justified; and I don't think the ordinary American citizen would have to sell his chance of becoming a Henry Ford for more than about two bits in order to think that he was well paid for the chance, because the chance has diminished so much.

But how are you going to answer this question: If the free-enterprise system does require such great inequalities in income that a $25,000 limitation is out of harmony with the free-enterprise system, how are you going to sell that to the people as a democratic system?

MR. MARGET: I don't see any conflict at all.

MR. JACOBY: Inequality in income does not carry the implication that there's inequality in political power.

MR. KRUEGER: But everybody knows that inequality in income

does produce inequalities in political power. You're not denying that, are you?

MR. MARGET: Would you suggest, for example, that since Mr. Roosevelt has been president the people who have called the tune have been the people with great wealth?

MR. KRUEGER: I think they've done pretty well at it, beginning with Mr. Roosevelt himself.

MR. MARGET: I deny that completely! You should associate with some of those gentlemen, Krueger.

MR. KRUEGER: And I think that, on the whole, the people who have been criticizing Mr. Roosevelt for having wrecked the free-enterprise system are just talking through their hats. And if the limitation of incomes to $25,000 a year, which is about twenty-three times the median income in the United States, is incompatible with the continuation of a capitalist system, then the skepticism about the continuation of the capitalist system seems to me to be pretty well founded.

MR. JACOBY: Wait a minute! You're loading your example. Nobody proposes that anybody be guaranteed $25,000 a year for life.

MR. MARGET: Exactly!

MR. JACOBY: But the adventurer, the fellow who takes a chance, who takes high risks, must have the prospect of getting $25,000 or more, because he knows when he makes a bad bet he's going to have a bigger loss than $25,000.

The point is that in order to take high risks you must hold out the prospect of high returns and that losses offset gains. Probably if you were to take the mine run of adventure capitalists you would find that many of them end up as bankrupts, but they nevertheless have fulfilled their function in a private-enterprise economy, which is carrying out a new economy.

MR. KRUEGER: I think it's probably true that the imposition of such a limitation as $25,000 (even though I'd like to see it smaller) would get in the hair of the people who do take that kind of risk with their money and eventually do develop some kinds of valuable productive enterprises; but, on the whole, the large incomes above $25,000 are not made on the basis of venture capital. On the whole, most of them get it on the basis of inherited income.

MR. JACOBY: Now you're speaking of another question.

MR. MARGET: Precisely! This is not a proposal to avoid permanent differences in income which are due to inheritance. Neither Jacoby nor I take the position with respect to inheritance taxes that we do with respect to the confiscation of income over $25,000. There is a great difference.

MR. KRUEGER: Then you would like to see such a tremendous increase in inheritance taxes that nobody would be able to inherit a very large income?

MR. MARGET: I would say that it doesn't have to be done so as to confiscate them completely, but I would say "Yes," in terms of preventing great accumulations through inheritance.

MR. JACOBY: There is one other question that the ROUND TABLE is going to consider in detail at some future date, and that is whether the war economy is going to kill the free-enterprise system, regardless of any limitation on personal incomes. What do you think of that?

MR. KRUEGER: I think it's already happened. I don't think it's a question that needs to be put in the future tense. I know there's accumulating quite a backlog of inventions and technological improvements that might be put into operation following the war; but I'm far more impressed by the fact that controls are passing out of the hands of private businessmen and passing into the hands of administrative authority. And my guess would be that in the post-war situation the demobilization of those centralized controls will be virtually impossible.

MR. JACOBY: I think it will be easier than ever, because the American people don't like control, and when they get through with Mr. Henderson's 200,000 "snoopers" on the price and rationing system, you're going to see a great willingness to get rid of each and every control.

MR. KRUEGER: Including the kind of controls that are designed to prevent monopoly, perhaps?

MR. MARGET: Not necessarily. I would simply say that I think there are tendencies which might destroy the free-enterprise system if we allow them to develop, but I would insist that the thing really lies within our hands as a matter of conscious choice in the post-war period.

MR. JACOBY: We agree that a $25,000 limit on annual personal income, after taxes, would not constitute a threat to the private-enterprise system, providing the limit was understood to be a temporary wartime measure. But we disagree on the advisability of setting any such limit.

Krueger thinks it is necessary to gain the full cooperation of the lower-income groups in the war effort; whereas Marget and I think an income limit is not politically necessary and would create unnecessary disturbances without any compensatory gains.

However, we do agree that we should seek as large a measure of equality of sacrifice during the war as is possible, and we should do this preferably through a broad-based, heavy income tax that hits the richest two-thirds of the population.

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"British, U.S. Taxes: How Systems Differ," *United States News,* May 29, 1942. *A comparison of all aspects of the tax program.*

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HICKS, J. R., *et al., Taxation of War Wealth.* Oxford: Oxford University Press, 1941.

KEYNES, JOHN MAYNARD, *How To Pay for the War.* New York: Harcourt, Brace & Co., 1940. *A British economist proposes compulsory savings.*

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ROOSEVELT, F. D., "Self-denial for Victory," *Vital Speeches,* May 15, 1942. *A speech on national economic policy.*

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"Tax-dodging Dollars," *New Republic*, May 25, 1942. *A review of what the House Ways and Means Committee has done to the Treasury's tax proposals.*

Temporary National Economic Committee, *Who Pays the Taxes?* "Investigation of Concentration of Economic Power," Monograph 3. Washington, D.C.: United States Government Printing Office, 1940. *A study of the "allocation of federal, state and local taxes to consumer income brackets," based upon 1938–39 data.*

Warren, Robert; Jones, Homer; *et al.*, *Financing the War*. Philadelphia: Tax Institute (Wharton School of Finance and Commerce, University of Pennsylvania), 1942. *The published papers of a symposium. Of particular relevance to the* Round Table *topic is the section on the "Control of Inflation through Revenue Policies."*

QUESTIONS FOR ANALYSIS AND DISCUSSION

The following questions of wider scope, intended for discussion, are suggested by the broadcast, and answers may be found in the literature on the subject listed in the section "Suggested Readings," found on pages 23–24.

*

1. Do you favor limiting personal incomes in wartime, after taxes, to $25,000 a year? Discuss.

2. Is it politically necessary to limit wartime incomes to some such figure in order to make acceptable the imposition of drastic taxes upon individuals in the lower-income brackets? What are the moral issues involved?

3. Do you agree with the idea that there should be equality of sacrifice during wartime? Does our present wartime tax structure achieve equality of sacrifice? What suggestions would you make for allotting the tax burden to insure greater equality of sacrifice?

4. What does Professor Marget mean when he says the true alternative to an adequate tax program is the inflationary process? Why would a substantial rise in the cost of living be more inequitable than almost any tax program that might be devised?

5. What has the House Ways and Means Committee proposed for the 1943 tax bill? Is their tax program capable of preventing inflation? Do you think they have cut tax exemptions for the single person and the married couple to too low a level?

6. Do you think a permanent limitation of incomes to some level around $25,000 would "spell the death knell of free enterprise"? Do you think it is possible to operate a capitalistic system without great inequalities in the distribution of income? Is it possible to have a *democratic* system with great inequalities in the distribution of income?

7. Do you think that the war economy is going to kill the free-enterprise system? Will the wartime experience of much administrative control by the government create new faith in the free-enterprise system?

OBJECTIVE QUESTIONS FOR EXAMINATION

The answers to the following questions may be found in the text of the broadcast, and page references are provided to assist in locating the answers.

*

1. What proportion of income-receivers get more than $25,000 a year? What proportion of the total national income do they receive? Page 3.
2. What per cent of income-earners get less than $2,500 a year? Page 5.
3. What is meant by the term "inflationary process"? Page 10.
4. What is the best kind of tax from the standpoint of equality of sacrifice? Page 12.
5. In what ways has the House Ways and Means Committee failed to carry out the Treasury recommendations in regard to 1943 taxes? Pages 13, 16.
6. What size tax does the House Ways and Means Committee recommend on a $10,000 income? On a $5,000 income? Page 13.
7. What are the new exemptions for a single person and for a married couple proposed by the House Ways and Means Committee? Page 16.

The Listeners' Round Table . . . .

Letters to the ROUND TABLE *frequently contain interesting and illuminating side lights on the subject matter discussed on the air. These comments are from letters received following recent broadcasts.*

*

Enemy Aliens

[*The following letter, from a member of an Enemy Alien Hearing Board, further explains the current procedure for dealing with the investigation of enemy aliens.*—ED.]

I heard the ROUND TABLE discussion, "Aliens in Our Midst," as I always do on Sunday, and I now have before me a transcript of the broadcast, which I have read.

I invite your attention to the concluding remarks of Mr. Colwell* in which his statement infers that the F.B.I. handles the entire matter of enemy aliens. This is not the fact. The F.B.I. apprehends the enemy aliens and turns them over to the custody of the Bureau of Immigration. There are in certain districts Enemy Alien Boards, composed of a minimum of three members and a maximum of five members. The enemy aliens in custody are brought by the Immigration authorities before these boards. The F.B.I. investigator is present and makes his report in the presence of the enemy alien. The United States district attorney handles the case for the government. The enemy alien may be accompanied by a relative or friend. He is given an opportunity to refute the statements of the F.B.I. representative or to explain any statement. He is also permitted to make any statement he desires concerning his case and situation. After the dismissal of the enemy alien from the room, the board considers the case and makes a written report and recommendation to the Attorney-General of the United States, which report is approved by the local United States district attorney.

When the report mentioned above is received by the Attorney-General, it is reviewed in his office, and he either approves or disapproves of the recommendations in the report. If the report recommends internment, the enemy alien still remains in the custody of the Bureau of Immigration and is transferred to some suitable place unknown to the hearing board. If the report recommends parole and if there is no suitable person recommended by the board, the Bureau of Immigration finds such a person, and the enemy

*[*Mr. Colwell said: ". . . . The general program of investigating and holding all suspects and releasing the innocent, as it has been carried out by the F.B.I., for example, deserves commendation; . . . ."*—ED.]

alien is then paroled but is required to report at specified times.

The monotonous and hard part of the work concerning enemy aliens lands on these hearing boards, which are appointed by the Attorney-General of the United States and which serve without compensation.

*

Thinking People

I was very much interested in today's discussion and particularly want to thank Mr. Lasswell for believing that we are entitled to hear our government's messages broadcast in a dignified and adult manner. We do not need a skit by Jack Benny to cheat us into listening to what the governmen has to say.

If I remember correctly, one o your speakers implied that by a subtl handling of the public during the las war they voluntarily reduced the sugar consumption. Did he not forge to mention that the price of sugar ros from five to thirty cents a pound? I may have had something to do with i

We do not have time to listen t all the broadcasts, so please use you influence to give the reasonably inte ligent listeners a break. Don't forc us all to come down to what is suitabl for ten-year-olds. Persuade our gov ernment to flatter us in its program by treating us as thinking people.

J. O. L., New York

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207. *Propaganda: Good and Bad*
208. *Civilian Defense*
209. *Taxes* vs. *Axis*
210. *Women, Work, and the War*
211. *The American Temper*
212. *India*
213. *Wanted: 30,000,000 Men*
214. *War Profits*
215. *War and the Family*
216. *Politics in Wartime*
217. *Aliens in Our Midst*
218. *Radio in Wartime*
219. *Children and the War.* May 24

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How Does War Affect Your Freedom?

You should read: *Our Liberties* (*173*) and *Civil Rights and "Public Danger"* (*196*). These discussions review the traditions of American liberty and report upon the effects defense and war have had upon them.

EDUCATION FOR FREEDOM

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A UNIVERSITY OF CHICAGO ROUND TABLE BROADCAST

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JUNE 7, 1942

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STRINGFELLOW BARR, President, St. John's College
SCOTT BUCHANAN, Dean of the College, St. John's College
ROBERT M. HUTCHINS, President, University of Chicago
and the
ROVING REPORTER

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SUGGESTED READINGS

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